

26 September 2014



Submissions  
Electricity Authority  
PO Box 10041  
**WELLINGTON**

via email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Authority,

Thank you for the opportunity to provide feedback on the discussion paper "*Improving transparency of consumers' electricity charges*".

Contact supports transparency and enabling consumer choice where it helps consumers to make better decisions. However, we are concerned that the consumer is missing from this conversation. Quite simply there is no evidence that what is proposed is what consumers want or that they will find the information useful.

We believe greater consumer engagement is required from the outset in order to ensure any solution meets their needs. Without strong consumer engagement the proposal not only risks missing an opportunity, but may cause additional confusion for consumers.

In our view better outcomes for consumers in the short term will come from the Authority addressing the complexities in the market that lead to customer confusion and mistrust. For example:

- low fixed charge
- the rising number of embedded network companies
- how to deal with the repackaging of charges
- the rebalancing of fixed versus parallel lines charges as a result of falling demand per ICP.

We are also concerned that given the sheer number of networks, the proposal to require consultation between retailers and networks is burdensome, without the requisite benefits.

Finally the Authority's proposal appears to be a masked reaction to the April 1 price change. While the Authority was clearly annoyed at the 'finger pointing' that occurred at the time of the price change we note the following:

- Under the Electricity Authority's Final Principles and Minimum Terms and Conditions for Domestic Contracts for Delivered Electricity (Interposed) Clause 5.5 a Retailer must provide an explanation for an increase where the total invoiced price of the electricity supplied is more than 5%.
- The subsequent retail price check<sup>1</sup> by the Authority found that "all retailers accurately reflected their price changes in their communications with consumers."

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<sup>1</sup> Retail price check Market Performance Enquiry Market performance enquiry  
<https://www.ea.govt.nz/monitoring/enquiries-reviews-and-investigations/2014/retail-price-check/>

The fact that the number differed between retailers merely reflected that each retailer has a different customer base and therefore repackages differently. Unless the Authority deals with the points noted above, and in our submission, the Authority's proposal will not address this issue.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Louise Griffin', with a large initial 'L' and a stylized 'G'.

Louise Griffin

**Regulatory Affairs and Government Relations Advisor**

Question No.	Question	Submitter's response
Q1	<p>Do you agree with the Authority's view of the role of transparency in promoting competition? Please explain your answer.</p>	<p>In Contact's view the Authority's statements:</p> <p><i>"a lack of transparency, which becomes evident when price changes are announced, is resulting in reduced consumer engagement" and "better decision making by consumers is expected to have on-going dynamic competitive benefits and improve accountability of industry participants, especially retailers and distributors"</i></p> <p>are bold statements without any corroborating evidence.</p> <p>While we have and will continue to support transparency, we believe greater consumer involvement is required from the outset in order to determine what transparency looks like so that what is to be provided meets their needs. Without significant consumer engagement, and giving greater thought to pricing signals the Authority risks introducing further costs and complexity to the industry for no consumer benefit.</p> <p>It is well known that electricity is a low engagement category and it is presumptuous that greater transparency, that will only further expose consumers to the complexity of the market, will lead to consumer benefit and behaviour change.</p> <p>Transparency, on its own, will not achieve the efficiency gains suggested by the Authority. This is because for price transparency to have positive effects on consumer behaviour, pricing signals that enable consumers to change their behaviour in efficient ways have first to be in place.</p>

Q2	<p>Do you agree with the problem definition? Please explain your answer.</p>	<p>No.</p> <p>Contact does not believe the problem has been adequately defined; in particular what is appropriate or relevant information and what this means for New Zealand consumers (i.e. more information, less information, confusion about distribution/transmission (delivery) vs. retailer (supply of energy), etc).</p> <p>Paragraph 2.5.1 appears to imply that retailers may be repackaging line charges to create potential complexity and ultimately confusion. This is incorrect. Retailer's do not repackage to create complexity rather they repackage because some network tariff rates cannot be billed otherwise. This issue applies to both ICP and GXP pricing. Network tariff rates that are not predictable or billable without repackaging will frustrate transparency of charges. It is a retailer's role to manage the risk of market fluctuation in price at any given demand level and package that risk into their pricing along with networks.</p> <p>Accordingly, in Contact's view a significant first step towards transparency would be to ensure network tariff rates are billable without repackaging.</p>
Q3	<p>Do you agree with the Authority's proposal? Please provide reasons to support your answer.</p>	<p>The example provided in Appendix E is confusing and does not reflect the pricing components that typically apply to mass market domestic and SME consumers.</p> <p>It is unclear whether the obligation is intended to include transparency of charges for C&amp;I consumers, and whether it includes local networks only or also embedded networks.</p> <p>For the information to be meaningful and useful the distribution and transmission tariff rates in any notification must reflect the distribution and transmission prices disclosed on the distributor's website as anticipated by 11.40. However certain distribution and transmission tariff rates force retailers to repackage because they are not predictable or billable. Complex loss factors have a similar impact. For regulated transparency of charges to be effective it is Contact's view that there should be a regulated obligation on distributors to publish distribution and transmission tariff rates (at least for mass market consumers) that are billable and able to be passed through without repackaging. Otherwise such tariff rates should be excluded from the transparency obligation. Examples that require repackaging include: Orion's General Connections peak charge (peak period demand charge); Powerco's E1 demand charge; Any ICP coincident demand tariff rate where the coincident demand period(s) are not known in advance of billing; Any complex (e.g. summer/winter/day/night) loss factors that do not support retail pricing appropriate to mass market consumers.</p> <p>If a retailer absorbs a distributor's tariff rate change Contact believes that this will not be easily understood by customers, when seen on the proposed form.</p>

Q3 cont	Do you agree with the Authority's proposal? Please provide reasons to support your answer.	<p>The additional work required for retailers to produce the proposed form (additional data analysis, checking, mail production time) may not be covered by the timeframes that distributors have to notify retailers. This is likely to be more of a problem for smaller retailers. There is a case for increasing the notice period to retailers from 40 business days to 60 business days, in order for retailers to undertake this additional work. This would be even more critical if the requirement for retailers and distributors to consult was required.</p> <p>Contact disagrees with clause 11.37(3). In circumstances where the distributor is direct billing line charges to a consumer, the distributor should be obligated to notify the consumer of the changes in the distributor's tariff rate. The argument that requiring the retailer to notify reduces transaction costs and confusion by avoiding duplication of effort does not stack up. For example, the distributor's tariff rate may be a non-standard tariff rate not transparent to the retailer, or the distributor and retailer could be billing on a different cycle as for The Lines Company (and potentially have different customers as for The Lines Company).</p> <p>Retailers cannot comply with Clause 11.40 in circumstances where a distributor's tariff rate is not billable to a consumer without repackaging. In such circumstances the distributor will disclose the distribution and transmission tariff rate charged to retailers, and this will be quite different to what the retailer builds into its retail pricing to recover the estimated network costs for the tariff rate. As it stands Contact does not believe that section 2.4.18 "Disclosure of prices" supports transparency of charges to individual consumers as anticipated by the Authority.</p> <p>Clause 4.2.2 states that the Authority does not expect distributors to incur any establishment costs due to the proposal. We disagree. This statement fails to take into account changes to distributors' pricing methodology and tariff rate design that will be required if all distributors' tariff rates have to be structured to support transparency - i.e. have to be predictable and billable without requiring repackaging, and have to support alignment between the distributor's tariff rates disclosed in accordance with the Electricity Information Disclosure Determination 2012 and the distributor's tariff rates required to be notified in accordance with the proposed Schedule 11.6 (Appendix E). This would incur a system change which could ultimately lead to higher cost to serve which may be passed on to the consumer.</p> <p>Clause 4.2.3 does not account for the additional costs to retailers of separately notifying changes in a distributor's tariff rate from a change in the retailer's tariff rate if the retailer elects to (at least initially) absorb the distributor's increase.</p>
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<p>Q3 cont</p>	<p>Do you agree with the Authority's proposal? Please provide reasons to support your answer.</p>	<p><b>Costs and benefits of the proposal</b></p> <p>For the proposal to be considered for implementation it must be supported by a robust CBA. A robust CBA requires both:</p> <ul style="list-style-type: none"> <li>• Clearly identifying how the proposed changes will drive changes in behaviour (by consumers and market participants), and how those behavioural changes will affect economic efficiency;</li> <li>• Credible ways to operationalize the conceptual reasons that efficiency might change by quantifying the relevant effects, where possible.</li> </ul> <p>The CBA in the Authority's consultation paper falls short on both of these requirements.</p> <p>While the broad conceptual impacts identified in the paper have some validity, the analysis overlooks the conditions required for those impacts to be realised. For example, the Authority suggests that providing more information to consumers on network price changes will change the way that consumers use network services (avoiding the need for future investments). However, this impact will only materialise if networks charge more during peak periods—in fact, most networks in New Zealand do not have peak pricing.</p> <p>The quantitative estimates presented in the consultation paper have no credibility. The Authority makes several logical leaps and bold assumptions, without presenting evidence to support the estimates.</p> <p>Please see Appendix B for our further comments on the CBA.</p> <p><b>Addressing the 'blame game'</b></p> <p>Under 5.5(e) Final Principles and Minimum Terms and Conditions for Domestic Contracts for Delivered Electricity (Interposed) companies have a responsibility to provide not less than 30 days' notice of a price increase and an explanation of the reason for the increase where the increase in a fee or service charge or the total invoiced price of the electricity supplied is more than 5%.</p> <p>As proposed there is no obligation to agree on messaging (using identical methodology, a distributor could still claim "a 5% increase in charges" with a retailer claiming "network charges increasing, so bills will be ~2.6% more").</p> <p>The proposal could have the unintended result of distributors and retailers no longer issuing media releases with any information about the impact of price changes – resulting in a less transparent outcome for consumers.</p> <p>Contact believes that mandating a methodology provides a much more efficient solution in this regard. A definition of 'Average Consumer' exists in the Low User Regulations and could be used for this purpose.</p> <p>The proposed obligation to consult would not necessarily result in any change to messaging.</p>
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Q3 cont	Do you agree with the Authority's proposal? Please provide reasons to support your answer.	<p><b>Design of the form</b></p> <p>The proposed form appears confusing and overly complex.</p> <p>Appendix E does not anticipate a retailer having a fixed or daily charge which is a fundamental omission.</p> <p>It is not clear what is expected of network tariff rates that cannot be passed through without repackaging.</p> <p>It is not clear how restructuring of tariff rates is to be disclosed, e.g. when a distributor's price category is closed and consumers are migrated to one or more new price categories.</p> <p>Retailers do not currently need to maintain sub-charges (i.e. separate distribution and transmission tariff rates) for distributors' network tariff rates even if some distributors provide separate distribution and transmission tariff rates on price schedules. Each retailer would need to build and maintain their own separate databases to manage sub-charges (currently &gt;12,000 tariff rates, so many more sub-charges).</p> <p>The form appears to suggest a metering rate would have to be maintained and separately notified, although we don't think that is intended. It is noted that retailers typically build average metering costs into their retail prices as metering costs vary significantly across and within New Zealand's many networks so it not practicable to reflect the actual metering cost for each consumer</p> <p>This form does not allow for inclusion/display of any prompt payment discount. For a retailer that offers a larger payment discount against slightly higher tariffs, it could be argued that this form presents a distorted view of a customer's "transparent" price vs. what they actually pay. It could be argued this distorts the market against retailers offering higher prompt payment discounts.</p> <p>The design of certain tariff rates do not support transparency – i.e. cannot be directly on-billed to the customer without repackaging (this includes GXP based pricing, and demand-based pricing where meters are not capable of measuring demand). Contact strongly disagrees that The proposed form is not clear on how an annual bill is to be calculated.</p> <p>If this is a recent monthly bill multiplied by 12, a winter price change will be completely misleading as a result of seasonal differences because the "annual consumption" will generally be much higher than actual.</p> <p>If this is estimated for each consumer in the same way as for Low User communications, then how are the 20-25% of customers with less than 12 months of history calculated?</p>
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Q4	Do you agree with the alternative options?	<p>Contact believes that Option 1 is just as likely to achieve the proposed solution's objectives – particularly as the proposed solution does not offer any success criteria to be measured against.</p> <p>Contact does not agree with alternative options 2, 3 and 4.</p>
Q5	Are there any other options the Authority should consider?	<p>To improve transparency more effectively than the proposed solution, the Authority could consider:</p> <ul style="list-style-type: none"> <li>• the methodology that must be used when issuing media releases – as it applies to the already defined 'Average Consumer' in the Low User Regulations - please refer to our detailed feedback in <b>Appendix A -</b> (Paragraph 8(d));</li> <li>• requiring all network tariff rates for mass market consumers to be billable at an ICP level without requiring repackaging</li> <li>• requiring all distributors and retailers to provide consistent descriptions of tariff rates. The Authority to provide standardised, plain English descriptions of tariff rates to be used by retailers and distributors where appropriate to assist with consistency.</li> <li>• a more standardised network pricing structure for mass market consumers which supports transparency of charges with common tariff rate descriptions where possible thus making the complex simpler for consumers;</li> <li>• a requirement that retailers respond to individual requests for a network/retailer charge breakdown within a set period (for example within one month) where distributor pricing enables full transparency.</li> </ul>
Q6	Do you have any comments on the proposed Code amendment?	<p>Yes. Given the sheer number of networks, the proposal to require consultation between retailers and networks would be burdensome.</p> <p>Please refer to our detailed feedback in Appendix A.</p>



Q7	Do you have any comments on the draft template?	<p>Yes.</p> <p>Contact believes that this proposed solution, and template will not meet the objectives.</p> <p>The proposed template does not explicitly allow for a prompt payment discount, or any other competitive pricing incentives to be shown. This potentially distorts the market by excluding an important factor in consumers' purchasing behaviour during this "moment of truth."</p> <p>Please also see our comments in other sections, in particular to question 5.</p>
Q8	Do you agree with the statement of the objectives of the proposal? Please explain your answer.	<p>No.</p> <p>Contact does not agree that this proposal meets a definition of "better information" as consumers in the Authority's UMR research have indicated that this is likely to be more confusing and operate in opposition to the concept of greater transparency.</p> <p>As the Authority is not proposing to measure the concept of "better information" the Authority will not know if this proposal has succeeded in delivering any positive outcomes for New Zealanders, or has merely added additional cost.</p> <p>While promoting accountability may increase consumers' confidence, this proposed solution is likely to have the opposite effect of that intended.</p> <p>In Contact's view, the secondary objective of promoting operational efficiency is overstated. As the Authority states in the proposed solution, Consumers will spend additional time reading and understanding this information when receiving price changes – once consumers have that information from their retailer, there is nothing required to be made available from other retailers to compare this information to, so they have to work even harder to understand something more complicated than they currently do. It is very difficult for retailers to make the same information available for non-customers, as nothing is known about their consumption.</p>

Q9	Do you agree with the assessment of the costs and benefits of the proposal?	<p>No please see our response to Q3 on the CBA.</p> <p>Contact would expect this solution would cost us \$500k-\$1m up front, and then \$500k p.a. on an ongoing basis.</p> <p>Each retailer would have to individually maintain its own network pricing database at a sub-charge level, for all tariff rates, and repackaged distributor's tariff rates if not exempted, in all network regions. In Contact's case, seeing as this is not used in end-billing, this would have to built as a standalone database, at a cost of \$500k-\$1m, with \$300k p.a. of ongoing maintenance cost.</p> <p>The proposed additional retailer costs appear to be understated. The cost to Contact of adding the additional form to its price change letter is \$80-\$100k p.a. (just for print production costs). The additional process and resource to produce this additional form is estimated at:</p> <ul style="list-style-type: none"> <li>• \$100k p.a. for additional set-up and quality checking, and additional (unmeasured) internal time.</li> <li>• \$500k-\$1m to manage distributor's sub-charges (separate distribution and transmission tariff rates) and repackaged distributor's tariff rates if not exempted within a database.</li> <li>• \$300k p.a. to maintain this database.</li> </ul> <p>Contact believes Use of System Agreements (including the model UoSA) would need to be varied, or Code changes made, to provide an increased notice period of 60 working days (instead of 40 working days) to enable retailers to process separate distribution and transmission tariff rates and enable more detailed checking of consumer notifications in the already very congested period leading to the annual 1 April network price changes.</p> <p>Retailers do not have to provide any information on unbundled pricing to non-customers, so consumers will not be able to compare their price change notification to anything from other retailers.</p> <p>The EA calculates that consumers will have to expend more effort in understanding this additional information – economic theory (and marketing theory) suggests that making consumers work harder in order to reach a purchase decision will not result in a greater number of purchase decisions.</p>
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Q10

Are there any other costs or benefits that should be included in the assessment?

The Authority claims that greater transparency will reduce network capex—but does not have a credible way of estimating the effect. We do not agree with this as transparency by itself seems unlikely to achieve the efficiency gains suggested by the Authority. For price transparency to have tangible effects, pricing signals have to be in place that enable consumers to change their behaviour in efficient ways.

Take for example Orion and Powerco. We have chosen these two distributors because they both have a demand charge that signals the value of shifting consumption outside of peak periods.<sup>2</sup> With greater price transparency, demand charges would likely send mass market customers a clearer price signal that they could respond to. This would improve overall efficiency where the networks are capacity constrained because reducing peak demands avoids capex to expand capacity.

To estimate the relevant effects, we take the network peaks of Orion and Powerco and multiply them by a proxy of how much peak demand can be reduced through price transparency (from a UK study). This provides an estimate of capacity that would no longer be required. We then multiply this value by a dollar amount estimate of capex needed to provide 1MW of additional capacity to meet growth. This gives the value of avoided capex (which may be realised over several years).

**Table 1: Avoided Capex as a Result of Greater Price Transparency**

	Network Peak <sup>3</sup>	Proxy of Reduced Peak Demand from Greater Transparency <sup>4</sup>	Growth Capex <sup>5</sup>	Avoided Capex
Orion	596MW	3%	\$250,000	4,500,000
Powerco	737MW	3%	\$250,000	5,530,000

To put these estimates in context, Orion plans to spend roughly \$84 million on network capital expenditure next year. The estimate of avoided capex above therefore represents a saving of around 5 percent of annual capex. Powerco plans to spend roughly \$80 million on network capital expenditure next year. This means our avoided capex estimate represents a saving of around 7 percent of annual capex. Given that network capex responds to a range of factors (not just peak demand growth), these estimates seem plausible.

Transparency by itself seems unlikely to achieve the efficiency gains suggested by the Authority. For price transparency to have tangible effects, pricing signals have to be in place that enable consumers to change their behaviour in efficient ways.

<sup>2</sup>

Powerco's network is divided into two regions, Western and Eastern. Demand charges are charged to customers in the Western region only.

Q11	Do you agree with the evaluation of the alternative options? If not, why not?	<p>No.</p> <p>In Option 1, Retailers and Distributors are just as likely to agree consistent messaging as they are within the proposed solution which requires consultation and not agreement.</p> <p>Given the uncertainty of benefits in the proposed solution, as well as its higher costs, Contact believes that the status quo while testing the proposed solution with consumers through qualitative research is a more appropriate next step.</p>
Q12	Do you agree with the assessment of the proposed amendment against the requirements of section 32(1) of the Act? If not, why not?	<p>No.</p> <p>Contact believes that the proposed solution does not enable consumers to 'better understand' the magnitude of price changes as the majority of consumers do not delineate between transmission, distribution, metering and cost of energy.</p>

<sup>3</sup> See <http://www.oriongroup.co.nz/downloads/Orion%20AMP2015%20Complete.pdf> and [http://www.powerco.co.nz/uploaded\\_files/Publications-and-Disclosures/New/Disclosures/AMP-2013.pdf](http://www.powerco.co.nz/uploaded_files/Publications-and-Disclosures/New/Disclosures/AMP-2013.pdf)

<sup>4</sup> Taken from a UK study on the effects of ToU tariffs on load shifting. See [http://www.energynetworks.org/modx/assets/files/electricity/futures/smart\\_meters/FINAL%20REPORTS%20from%20consultants/Baringa%20Redpoint%20Load%20Shifting%20Potential%20FINAL%20Report%20V1.1%2019-06-13.pdf](http://www.energynetworks.org/modx/assets/files/electricity/futures/smart_meters/FINAL%20REPORTS%20from%20consultants/Baringa%20Redpoint%20Load%20Shifting%20Potential%20FINAL%20Report%20V1.1%2019-06-13.pdf)

<sup>5</sup> Taken from a report by the Electricity Networks Association. See <http://www.comcom.govt.nz/dmsdocument/11809>

Q13	Do you agree with the assessment against the Code amendment principles? If not, why not?	<p>No.</p> <p>Contact believes that the test for principle 2(a) has not been met. The Authority has not demonstrated that the amendments to the Code <u>will</u> improve the efficiency of the industry – as the costs appear to be understated, and benefits appear to be overstated</p> <p>Contact also believes that the test for principle 2(b) has not been met. Market failure has not been demonstrated – it could be argued that some market confusion occurred in April 2014, but this proposed solution does not eliminate that from reoccurring. The proposed solution may also result in asymmetric information arising, where retailers are forced to repackage distributor pricing – with different retailers showing different distributor pricing for their customers in the same region.</p>
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## **Appendix A – detailed feedback on Proposed Code changes.**

1. Contact suggests that an exclusion be allowed for customers that already receive unbundled bills, as well as for other customers that wish to opt-out.
2. **Clause 11.37(1)(b)**
  - a. The drafting is incorrect for networks with an interposed use of system agreement which covers most of the networks and consumers. Apart from a few exceptions (i.e. where the distributor direct bills line charges to some large consumers who want a direct line/billing services relationship with the distributor) the distributor bills the retailer, not the consumer.
  - b. It is a different case for a conveyance use of system agreement where the distributor has a line services contract with the consumer and the retailer (except for The Lines Company) bills the consumer for line charges as agent of the distributor. This is currently the situation in the Mainpower and Vector (Northern network) networks, although from 1/9/14 with the pan-Auckland change Mainpower will be the only network (apart from The Lines Company) with a conveyance use of system agreement.
  - c. The distributor populates 3 pricing fields in the registry (price category code, chargeable capacity, distributor installation details) which together with its pricing schedule and policy identify the line prices that apply in respect of the ICP. The registry also records ICPs for which direct billing of line charges applies.
  - d. Where the interposed use of system agreement applies and the retailer is billed for line charges (b) should be amended to “a distributor changes the tariff rate it charges to the retailer in respect of 1 or more consumers connected to its network; or”, with “;or” inserted to allow for (c) as per below.
  - e. In this case (c) should be added “a distributor changes the tariff rate the retailer (acting as agent of the distributor) charges to 1 or more consumers connected to its network”.
3. **Clause 11.37(1) & (2), Schedule 11.6:**
  - a. It seems unreasonable to require retailers to incur the cost of notifying consumers of a change to the distribution and/or transmission tariff rate if the pricing to the consumer is not changing (i.e. if the retailer has absorbed the distributor’s tariff rate changes). However it is acknowledged the intention is to establish transparency and accountability for both increases and decreases in tariff rate components, thus addressing sensitivities raised by distributors.
  4. Clause 11.37(3)(a) & (b) – Minor technical point, but in the case of The Lines Company which direct bills line charges their customer is the property owner who is not necessarily the consumer.
  5. Contact disagrees with clause 11.37(3). In circumstances where the distributor is direct billing line charges to a consumer the distributor should be obligated to notify the consumer of the changes in the distributor’s tariff rate. The argument that requiring the retailer to notify reduces transaction costs and confusion by avoiding duplication of effort does not stack up. For example, the distributor’s tariff rate may be a non-standard tariff rate not transparent to the retailer, the distributor and retailer could be billing on a different cycle as for The Lines

Company (and potentially have a different customer as for The Lines Company), and it would seem unreasonable to regulate additional transaction costs on the retailer when the consumer/distributor have chosen to have a direct billing relationship. Accordingly the following should replace 11.37(3) including (a) and (b) –

“Despite subclause (2), if the distributor direct bills a consumer for line function services then the following will apply:

(a) the distributor, not the retailer, must explain the nature of the distributor’s tariff rate change to the consumer, using the form set out in Schedule 11.6;

(b) the retailer must explain the nature of a change to the retailer’s tariff rate to the consumer, using the form set out in Schedule 11.6.”

**6. Clause 11.37(4)**

7. Taking into account that some distributors’ tariff rates are not billable without repackaging and therefore do not support transparency of charges, and our comments regarding 11.40 below, it is appropriate to insert an additional sub-clause after 11.37(3) and 11.37(4) be renumbered 11.37(5), as follows:

“(4) Despite subclause (2), the retailer must not explain the nature of the distributor’s tariff rate change to a consumer where a distributor’s tariff rate relevant to the consumer cannot be passed through without repackaging.”

## Appendix B

- The table following summarises how we think the core components of the Authority's proposal to improve price transparency might affect efficiency.
  - The first column summarises three proposed changes
  - The second column explains how these changes might change the behaviour of consumers and industry participants
  - The third column links those changes to possible efficiency effects.
- In the final column, we highlight the conditions that would need to exist for these effects to be realised. These conditions have largely been missed or assumed away by the Authority.

Table 2: Our Understanding of the Proposal

What is being proposed?		How will this change behaviour?		What are the efficiency impacts?	Conditions that need to hold
<ul style="list-style-type: none"> <li>▪ More information on relative split of total bill</li> </ul>		<ul style="list-style-type: none"> <li>▪ No expected behavioural change</li> </ul>		<ul style="list-style-type: none"> <li>▪ No expected efficiency impacts</li> </ul>	<ul style="list-style-type: none"> <li>▪ None</li> </ul>
<ul style="list-style-type: none"> <li>▪ Specific breakdown of price changes               <ul style="list-style-type: none"> <li>– Retail (incl. EA levies)</li> <li>– Distribution (incl. transmission)</li> </ul> </li> </ul>	➔	<ul style="list-style-type: none"> <li>▪ Consumers will use network services differently if they can see how distribution prices are changing</li> <li>▪ Consumers will switch retailers more (or less) if they can see how retail prices are changing</li> </ul>	➔	<ul style="list-style-type: none"> <li>▪ Less network capital expenditure</li> <li>▪ More efficient use of existing network assets (e.g. where spare capacity exists)</li> <li>▪ Lower retail margins due to greater competition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Requires price signals to be sent through network prices</li> <li>▪ Then requires network prices to be reflected in retail bill (not re-bundled)</li> <li>▪ Only applies to the extent consumers can shift their consumption</li> <li>▪ Assumes that consumers care about the specific components of bill, and not just the total price</li> </ul>
<ul style="list-style-type: none"> <li>▪ Consultation between retailers and distributors on media release explaining price changes</li> </ul>	➔	<ul style="list-style-type: none"> <li>▪ Forces interaction between retailers and distributors</li> </ul>	➔	<ul style="list-style-type: none"> <li>▪ Cost of interaction between distributors and retailers</li> <li>▪ Creates an opportunity for constructive discussions between distributors and retailers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Efficiency gain only if interactions lead to a clearer pass-through of network price signals into retail prices (otherwise just imposes cost)</li> </ul>



- The logic set out in the table above suggests that realising the efficiency gains claimed by the Authority (particularly lower network capex) requires:
  - Network prices that signal future investment needs—this means that any consumer response actually has the impact of avoiding future capex
  - Network prices that are transparently passed-through by retailers—this maintains the value of those price signals (and requires network prices that are “consumer friendly” and not overly complex).
- It is very difficult to see how these conditions are created by the transparency initiatives proposed by the Authority, or any of the alternative options evaluated in the paper. We therefore conclude that if the Authority wants to achieve the claimed efficiency gains, the CBA has failed to inform the selection of good regulatory options.
- Possible options that could potentially deliver the type of efficiency gains described by the Authority could include:
  - Requiring retailers and distributors to agree on network price structures that signal the future costs on each network, and requiring retailers to pass-through those network prices (this could be achieved through a negotiate-arbitrate system), and then to separately itemise bills
  - Mandating particular categories of network charges that signal investment needs, and requiring retailers to pass-through those network prices, and then to separately itemise bills.
- These options clearly go well beyond simple transparency, and make the information that is being disclosed meaningful to inform more efficient a consumer decisions.

### **Quantifying the impacts of the proposed transparency measures**

- The Authority’s CBA fails to translate the conceptual impacts identified in the paper into credible quantitative estimates, and contains at least one significant error in estimating the efficiency effects.
- The major efficiency effect quantified by the Authority is that transparency will lead to less network capex. To estimate this effect, the Authority starts by looking at the effect of CPI-X regulation on Victorian distribution expenditure as a basis for New Zealand’s reduction in network expenditure. CPI-X regulation directly affects expenditures by capping allowable prices/returns, something the regulation proposed by the Authority does not do. Given the form of regulation is completely different the analysis is unconvincing.
- The Authority then mistakenly uses operational expenditure data from Victorian distribution companies instead of capex data. This means that the reduction in projected capex spending by New Zealand EDBs is based on a reduction on opex under CPI-X in Victoria.